

# A letter from the CEO



# Raising

To the Congress, our customers  
and fellow employees:

## The race is on!

The Postal Service faces a daily struggle with formidable competitors, high-tech alternatives and changing customer needs. To deliver messages, gain market share and earn the opportunity to serve the communication needs of our nation, we recognize that we must win our customers' business to stay in business. That means picking up the pace in our performance, delivering new records for service and financial achievements, and creating a new, wider range of communications products for our customers. We are determined to win the race and deliver for the people of the United States.

## Breaking records

Fiscal year 1996 was another record-breaking year for the Postal Service.

We began the year with a goal to reach a national average of 90 percent on-time delivery of local First-Class Mail. We not only beat our goal with 91 percent on-time performance —

compared with a national score of 86 percent last year — but 80 of the 96 cities measured by an independent accounting firm hit 90 or better. Just as impressive, this performance marks the seventh straight quarter that service has improved compared to the same period last year.

We have raised the bar for 1997. Our goal is to reach 92 percent on-time delivery for local First-Class Mail by the end of the year and to hit 95 by the year 2000.

Service was not the only area of record-breaking performance in 1996. Throughout the year, our employees were equally attentive to the bottom line. We ended the year with a net income of \$1.6 billion, the second most profitable year in postal history. Based on that, we have cut our negative equity by more than half, from \$6 billion down to \$2.6 billion, in just the past two years.

Our financial success has been sparked by improved control over expenses. Since 1992, we have held growth in expenses below five percent for the first time since the early 1970s. Several factors have contributed to that performance. For example, our automation plan is paying important dividends. Since 1990, we have saved an estimated \$6.5 billion thanks to automation efficiencies. In addition, we continue to benefit from our 1992 restructuring and the refinancing of our long-term debt. Our successful liquidity management program won two prestigious Alexander Hamilton Awards in 1996.



Marvin Runyon, Postmaster General and CEO

# *the Bar*

"I rely on the mail to keep me in touch with my family and friends, and to pay the bills and manage my household. I probably take the Postal Service for granted, but that's because of its dependability."

Sharon Veith  
Customer



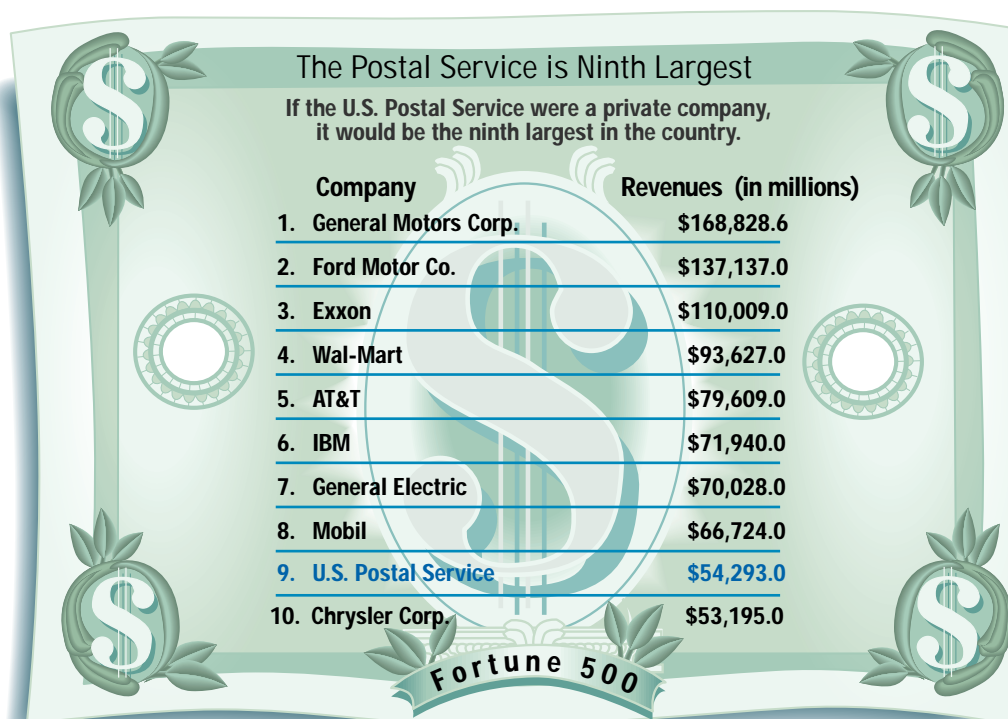
Improved management of expenses helped offset flat mail volume growth in 1996. At the beginning of the fiscal year, we projected modest growth of two percent. The reality has been one-half of that, with total growth of one percent. As a result, revenue fell short of budget by \$880 million.

Several factors contributed to the flat volume growth, including the severe winter of 1995–1996, rising paper prices which adversely affected the catalog industry and growing competition from new technology and other service providers.

automated machines that read bar codes on letter mail. At the same time, we are phasing out mechanized and manual mail sorting operations, which are more costly and less accurate.

We also are entering the age of postal robotics, with plans to put 100 robotic mail tray transport systems into our mail processing plants in 1997. Experience in other industries has shown that robots improve employee working conditions, cut costs and increase reliability.

Second, we are investing in the brains behind the brawn. In fiscal



Source: *Fortune*

## New game plan

We can't control the weather, or the cost of paper, but we can determine the competitive value of our products in the marketplace. We are working to make the mail the first choice in communications and make sure that people know its value.

First, we are building our strength from the inside out. Our Board of Governors approved \$3.3 billion in 1996 for additional facilities, technology and equipment. For the heavy volume holiday mailing season, we brought on line hundreds of new

year 1997, every employee will receive special training from a curriculum that includes information on corporate goals, marketing and competition. We want to ensure that everyone in the organization knows why we are changing, how we are changing and what they can do to help us make improvements that raise the bar of success.

Third, we are improving the way we run the race. In fiscal year 1996, as part of our *CustomerPerfect!* effort to achieve business excellence, we introduced Process Management in each of our 10 geographic areas.

Process Management is a problem-solving, diagnostic tool that provides statistical feedback on mail processing and delivery operations. It brings teams of employees together to solve real issues by using real data. We are putting Process Management into each of our 85 customer service and sales districts, and within two years, we expect it to pay dividends through improved mail processing quality and lower costs.

This year, we also pumped up the power of the mail itself with classification reform. These revolutionary reforms are bringing the mail into step with advances in mail processing technology and paying dividends for customers and the Postal Service.

## Planning strategy

At the same time, we are listening to what our customers are telling us — improving current products and introducing new ones. We see growth opportunities in the domestic market, with advertising mail and especially our two- to three-day Priority Mail service. At the conclusion of fiscal year 1996, Priority Mail volume was growing at a 10.4 percent clip, supported by an aggressive advertising campaign highlighting its competitive value. Continued advertising and a new Priority Mail Delivery Confirmation service, the first phase of our plans for Priority Mail tracking and tracing for large-volume mailers, should further stimulate product growth in fiscal year 1997.

Looking abroad, there is enormous growth potential for international mail. Currently, only seven percent of United States direct marketers sell overseas. We intend to help them and others by overcoming obstacles that lie in the way.

In fiscal year 1996, our International Business Unit began the process by establishing historic partnerships with countries such as Brazil, Chile, China and Germany. These growth markets joined our Global Package Link international shipping network. Global Package Link provides everything domestic mailers need to conduct business overseas. More partnerships will be established as our international unit

focuses on foreign markets that offer direct mailers and catalog marketers the biggest potential return on investment.

## Meeting the challenge

To continue to serve America's communications needs for the future, the Postal Service must break out of the pack and deliver communications innovations for every American business and consumer.

Working with a variety of private and public sector partners, we are testing an array of new electronic commerce services. For example, electronic postmarking and authentication systems will one day provide privacy and security to America's electronic communications and commercial transactions.

Another new idea is the Customer Initiated Payment System, which blends the best features of traditional mail with electronic technology by allowing customers to drop a prepaid card in the mail to initiate an electronic payment.

Innovations like these are the first groundbreaking strides to meet the challenges we face today and tomorrow, but more changes are needed. Despite our successes of the past few years, we recognize that our performance must continue to improve by leaps and bounds if we are to remain competitive and fulfill our mandate to provide universal mail delivery at uniform postage rates.

To accomplish this, we must work with Congress to modernize the laws that created the Postal Service 25 years ago and govern today's mail. We need legislative reforms to free up our people, our prices and our products to

compete in the 21st century and continue to provide guaranteed communications service to every American — reforms that will instill market discipline in our wage and work practices, give us the flexibility of market-based pricing, enable us to customize service agreements, help us to maintain control over our finances and allow us more leeway to bring new products to market. We are committed to working with our national leaders to create the necessary legislation and deliver the future of communications for America.

The Postal Service is in a race for tomorrow against the toughest, most agile competition in its history. Each



The Postal Service received the 1996 Alexander Hamilton Awards of Excellence for Cash and Treasury Management. Pictured with the awards are (l-r) PMG Marvin Runyon, Chief Financial Officer Michael Riley, Treasurer Stephen Kearney and Deputy PMG Michael Coughlin.

day the race continues. Each day a nation of customers is counting on us and our ability to cross the finish line with their messages and merchandise — on time, every time. We will deliver!

A handwritten signature in dark ink, appearing to read "Marvin Runyon".

Marvin Runyon  
Postmaster General  
and Chief Executive Officer  
United States Postal Service